

LOCKPORT TOWNSHIP
ST. JOSEPH COUNTY, MICHIGAN

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2005

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Lockport Twp.	County St. Joseph
Audit Date 6/30/05	Opinion Date 11/9/05	Date Accountant Report Submitted to State: 12/14/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

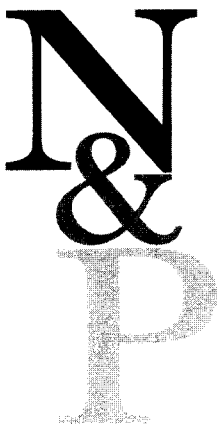
	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Norman & Paulsen, P.C.			
Street Address 123 N. Main Street	City Three Rivers	State MT	ZIP 49093
Accountant Signature  C.P.A.			

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INDEPENDENT AUDITOR'S REPORT

To the Supervisor and Members of the Township Board
Lockport Township St. Joseph County, Michigan

Norman & Paulsen, P.C.

Certified Public Accountants

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We have audited the accompanying financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of the Lockport Township as of and for the year ended June 30, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and the aggregate remaining fund information of Lockport Township as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information beginning on page iii through vi and 19, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Norman & Paulsen P.C.

Norman & Paulsen, P.C.

November 9, 2005
Three Rivers, Michigan

Donald L. Paulsen, CPA
Patrick J. Monahan, CPA
Bruce S. A. Gosling, CPA
Michael R. Wilson, CPA
Rick L. Strawser, CPA
Jerrel T. Norman (1941-1982)

LOCKPORT TOWNSHIP, ST. JOSEPH COUNTY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2005
(UNAUDITED)

As management of Lockport Township, St. Joseph County, Michigan, we offer readers of these financial statements this narrative overview and analysis of the financial activities of Lockport Township for the fiscal year ended June 30, 2005. The Township implemented in this fiscal year the Governmental Accounting Standards Board Statement 34: Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The township's basic financial statements are comprised of three components: 1) Government-wide financial statements; 2) fund financial statements; 3) notes to the financial statements.

Government-wide Financial Statements – The government-wide financial statements are designed to provide the reader with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The first statement, the statement of net assets, presents information on the Township's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The second government wide statement, the statement of activities, presents information showing how the net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes).

Both the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Township include general government and administration and public safety. The business-type activity is the water operations.

The government-wide financial statements can be found on pages 1 - 2 of this report.

Fund Financial Statements – A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Township has one basic governmental fund, the general fund. The basic governmental financial statements can be found on pages 3 - 4 of this report.

Proprietary funds provide the same type of information as the business-type activities shown on the government-wide financial statements, only in more detail. The Township has one proprietary fund, the water fund. The basic proprietary fund financial statements can be found on pages 5 - 8 of this report.

LOCKPORT TOWNSHIP, ST. JOSEPH COUNTY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2005
(UNAUDITED)

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 10 - 18 of this report.

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS

The assets of the Township exceeded its liabilities at June 30, 2005 by \$2,316,364 (net assets). Of this amount, \$638,672 (unrestricted net assets) may be used to meet the Township's ongoing obligations to citizens and creditors in accordance with the Township's fund designation and fiscal policies.

The Township's combined net assets increased by \$633,583 or 37.65% from a year ago. As we look at the governmental activities separate from the business-type activities, i.e., the water fund, we see that the governmental activities experienced an increase in net assets of \$14,559 as contrasted with the water fund that increased its net assets by \$619,024. The water fund received \$597,126 of capital contributions to be used toward the water system improvement project. Thus, the increase in the water fund's net assets from operations is \$21,898. The Township had budgeted for \$179,000 of expenditures in excess of revenues. The loss was approximately \$182,000 less than budgeted for.

The largest portion of the Township's net assets (89.61 %) reflects its investment in capital assets (water mains, wells and pumping equipment, buildings and land). Certificates of deposit make up 17.34 % of the net assets.

With the second year implementation of GASB Statement 34, the Township is presenting comparable columns in the various comparisons or analyses for the prior year.

LOCKPORT TOWNSHIP'S NET ASSETS

	Governmental Activities		Business-Type Activities	
	2005	2004	2005	2004
Current and other assets	\$490,414	\$498,119	\$ 201,962	\$ 387,998
Capital assets	19,876	8,354	1,989,600	1,183,486
Total Assets	<u>\$510,290</u>	<u>\$506,473</u>	<u>\$2,191,562</u>	<u>\$1,571,484</u>
Current liabilities	\$ 43,962	\$ 54,704	\$ 9,742	\$ 8,822
Long-term liabilities	-	-	331,784	331,650
Total Liabilities	<u>\$ 43,962</u>	<u>\$ 54,704</u>	<u>\$ 341,784</u>	<u>\$ 340,472</u>
Net Assets:				
Invested in capital assets, net of related debt	\$ 19,876	\$ 8,354	\$1,657,816	\$ 851,836
Unrestricted	<u>446,452</u>	<u>443,415</u>	<u>192,220</u>	<u>379,176</u>
Total Net Assets	<u>\$466,328</u>	<u>\$451,769</u>	<u>\$1,850,036</u>	<u>\$1,231,012</u>

Unrestricted net assets – the part of net assets that can be used to finance day to day operations, increased by \$3,037 for the governmental activities. This represents an increase of .68%. The current level of unrestricted net assets for our governmental activities stands at \$446,452, or about 117.97% of the current year's governmental expenditures.

LOCKPORT TOWNSHIP, ST. JOSEPH COUNTY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2005
(UNAUDITED)

Analysis of the Township's Operations

The following table provides a summary of the Township's operations for the year ended June 30, 2005. Governmental activities decreased the Township's net assets by \$70,458, accounting for a 13.49% reduction of net assets. Business-type activities increased the Township's net assets by \$560,630. This increase reflects capital contributions of \$559,781. The increase in net assets by operating activities was \$773.

LOCKPORT TOWNSHIP'S CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues:				
Program revenues:				
Charges for services	\$ 25,058	\$ 61,337	\$ 89,594	\$ 58,249
Capital grants and contributions	-	-	597,126	559,781
General revenues:				
Property taxes	106,044	93,906	-	-
State shared revenues	248,479	261,340	-	-
Unrestricted investment earnings	13,821	6,818	2,559	773
Miscellaneous	(412)	2,736	-	-
Total revenues	<u>392,990</u>	<u>426,137</u>	<u>689,279</u>	<u>618,803</u>
Expenses:				
General government	235,416	211,605	-	-
Planning and zoning	32,797	40,147	-	-
Public safety	66,361	193,423	-	-
Public works	3,514	11,893	40,882	40,676
Health and welfare	13,527	13,175	-	-
Library	24,437	22,803	-	-
Interest	-	-	13,740	2,412
Depreciation	<u>2,379</u>	<u>3,549</u>	<u>15,633</u>	<u>15,085</u>
Total expenses	<u>378,431</u>	<u>496,595</u>	<u>70,255</u>	<u>58,173</u>
Increases/(Decreases in net assets)	14,559	(70,458)	619,024	560,630
Net assets - July 1, 2003	<u>451,769</u>	<u>522,227</u>	<u>1,231,012</u>	<u>670,382</u>
Net assets - June 30, 2004	<u>\$466,328</u>	<u>\$451,769</u>	<u>\$1,850,036</u>	<u>\$1,231,012</u>

LOCKPORT TOWNSHIP, ST. JOSEPH COUNTY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2005
(UNAUDITED)

FINANCIAL ANALYSIS OF GOVERNMENTAL ACTIVITIES

Governmental Funds

At the close of the current fiscal year, the Township's general fund reported ending fund balances of \$446,452. All is unreserved and available for use within the Township's designation and policies. Fund balance increased by \$3,037. The Township has remaining fund balance in excess of one year's expenditures.

Proprietary Funds

The water fund generated \$33,079 of earnings from operations for the fiscal year. Nonoperating revenues from capital contributions of \$597,126 were used on the water system improvement project. Interest expense accrued on bonds less interest and investment income was \$(11,181). Therefore, the net change in net assets of the water fund was an increase of \$619,024. At the end of the current fiscal year, unreserved fund balance for the water fund was \$192,220, 273.60% of the total water fund expenditures.

General Fund Budgetary Highlights

The Township did not revise the original appropriations for expenditures as approved by the Village board. A detailed budgetary comparison is found on page 19 of this report.

The Township's actual revenue exceeded budgeted revenue by \$55,975 or 16.52%, due to receiving approximately \$27,100 more for charges for property tax revenue and \$48,500 more in state shared revenues than budgeted, net of approximately \$24,400 less state shared revenues.

The Township's overall budgeted expenditures of \$517,469 were less than actual expenditures by \$125,731 or 24.3%. Significant amounts budgeted and not spent:

General government:

Renovations on the Township hall and purchase of other equipment	\$64,700
Elections	3,000
Assessor	3,000

Planning and Zoning:

Contracted services	3,600
Permits	26,500

Public Safety:

Fire protection	15,500
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Public works:

Road repairs	7,000
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LOCKPORT TOWNSHIP, ST. JOSEPH COUNTY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2005
(UNAUDITED)

CAPITAL ASSETS

The Township's investment in capital assets for its governmental and business-type activities as of June 30, 2005, amounts to \$1,989,600 (net of accumulated depreciation). This investment in capital assets includes land and easements, buildings, water equipment, and office equipment.

During the current fiscal year the Township invested \$876,015 in improvements to the water system as part of an ongoing \$7.3 million project. The Township acquired additional land easements for a total of \$17,349.

Capital Assets at June 30, 2004 (Net of Accumulated Depreciation):

	Governmental Activities		Business-Type Activities	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Land and easements	\$ -	\$ -	\$ 100,265	\$ 82,916
Buildings	15,686	-	21,111	19,936
Water mains, piping	-	-	360,441	420,823
Wells, pumps, meters	-	42,704	14,661	42,704
Office equipment	29,606	8,354	-	-
Water improvement system	-	-	1,493,122	617,107
Total	<u>\$45,292</u>	<u>\$8,354</u>	<u>\$1,989,600</u>	<u>\$1,183,486</u>

Additional information on the Township's capital assets can be found in note 5 on pages 16 - 17 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The general fund budget for fiscal year ended June 30, 2006 anticipates revenues of approximately \$317,200, a decrease of \$77,575 from the current year actual revenues. The budget reflects an estimated reduction of the following:

State revenue sharing	\$48,500
Property tax collections	16,000
Charges for services	13,075

General fund budgeted expenditure for the fiscal year ended June 30, 2006 reflect an increase from the previous year of approximately \$50,000 mainly due to planned construction on the Township hall.

The water fund budget for fiscal year ended June 30, 2006 anticipates revenues of approximately \$104,237 and expenditures of approximately \$104,190 for a net loss of \$47. During fiscal year ended June 30, 2004, a resolution was passed to charge a minimum quarterly water rate of \$32. The Board does not anticipate increasing this in fiscal year ended June 30, 2006.

The Township anticipates completion of the \$1.3 million water tower project during fiscal year ended June 30, 2006.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact Martin Barth at (269) 279-2184 or Wayne Timm at (269) 279-2722.

LOCKPORT TOWNSHIP, ST. JOSEPH COUNTY, MICHIGAN

**STATEMENT OF NET ASSETS
JUNE 30, 2005**

	Primary Government		
	Governmental Activities	Business -Type Activities	Total
ASSETS			
Cash and cash equivalents (Note 3)	\$ 70,443	\$ 115,723	\$ 186,166
Investments	366,147	35,521	401,668
Receivables (net)	3,778	21,704	25,482
Internal balances (Note 4)	3,945	(3,945)	-
Due from other governments (Note 4)	36,075	27,269	63,344
Due from Tax Collection Fund	2,111	-	2,111
Inventories	-	827	827
Prepaid expenses	7,915	4,863	12,778
Capital assets - net (Note 5)	19,876	1,989,600	2,009,476
Total Assets	\$ 510,290	\$ 2,191,562	\$ 2,701,852
LIABILITIES			
Accounts payable	\$ 27,542	\$ 6,341	\$ 33,883
Accrued payroll and other liabilities	16,420	3,401	19,821
Noncurrent liabilities			
Due in more than one year (Note 7)	-	331,784	331,784
Total Liabilities	\$ 43,962	\$ 341,526	\$ 385,488
NET ASSETS			
Invested in capital assets			
Net of related debt	\$ 19,876	\$ 1,657,816	\$ 1,677,692
Unrestricted	446,452	192,220	638,672
Total Net Assets	\$ 466,328	\$ 1,850,036	\$ 2,316,364

See accompanying notes to financial statements

LOCKPORT TOWNSHIP, ST. JOSEPH COUNTY, MICHIGAN

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
General government	\$ 235,416	\$ -	\$ -	\$ -
Planning and zoning	32,797	8,073	-	-
Public safety	66,361	6,650	-	-
Public works	3,514	10,335	-	-
Health and welfare	13,527	-	-	-
Library	24,437	-	-	-
Depreciation (unallocated)	2,379	-	-	-
Total Governmental Activities	378,431	25,058	-	-
Business - Type Activities				
Water	70,255	89,594	-	597,126
Total Primary Government	\$ 448,686	\$ 114,652	\$ -	\$ 597,126

General Revenues

Property Taxes
State revenue sharing
Unrestricted Investment Earnings
Miscellaneous

Total General Revenues - Transfers

Loss on disposal of capital assets

Change in Net Assets

Net Assets - Beginning of Year

Net Assets - End of Year

See accompanying notes to financial statements

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business -Type Activities	Total
\$ (235,416)	\$ -	\$ (235,416)
(24,724)	-	(24,724)
(59,711)	-	(59,711)
6,821	-	6,821
(13,527)	-	(13,527)
(24,437)	-	(24,437)
(2,379)	-	(2,379)
(353,373)	-	(353,373)
-	616,465	616,465
(353,373)	263,092	(90,281)
106,044	-	106,044
248,479	-	248,479
13,821	2,559	16,380
1,373	-	1,373
369,717	2,559	372,276
(1,785)	-	(1,785)
14,559	619,024	633,583
451,769	1,231,012	1,682,781
<u>\$ 466,328</u>	<u>\$ 1,850,036</u>	<u>\$ 2,316,364</u>

LOCKPORT TOWNSHIP, ST. JOSEPH COUNTY, MICHIGAN

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

	General Fund
ASSETS	
Cash and Cash Equivalents	\$ 70,443
Investments	366,147
Receivables (Net)	3,778
Due from Other Funds	6,056
Receivables from Other Governments	36,075
Prepaid expenses	7,915
Total Assets	<u>\$ 490,414</u>
LIABILITIES	
Accounts payable	\$ 27,542
Accrued payroll and other accrued liabilities	16,420
Total Liabilities	<u>43,962</u>
FUND BALANCES	
Unrestricted	<u>446,452</u>
Total liabilities and fund balance	<u>\$ 490,414</u>
Total governmental fund balances	\$ 446,452
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds.	
Cost of capital assets	45,292
Less accumulated depreciation	<u>(25,416)</u>
	19,876
Net Assets of Governmental Activities	<u>\$ 466,328</u>

See accompanying notes to financial statements

LOCKPORT TOWNSHIP, ST. JOSEPH COUNTY, MICHIGAN

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	General Fund
Revenues	
Taxes and penalties	\$ 106,044
Licenses and permits	8,073
State shared revenues	248,479
Charges for services	16,985
Interest	13,821
Other revenue	1,373
Total Revenues	394,775
Expenditures	
Current	
General Government	235,416
Planning and zoning	32,797
Public Safety	66,361
Public Works	3,514
Health and Welfare	13,527
Library	24,437
Capital outlay	15,686
Total Expenditures	391,738
Excess (deficiency) of Revenues Over Expenditures	3,037
Fund Balance - July 1, 2004	443,415
Fund Balance - June 30, 2005	\$ 446,452
Net change in governmental fund balance	\$ 3,037
Amounts reported for governmental activities in the statement of activities are different because	
Governmental funds report capital outlays as expenditures; in the statement of activities these costs are allocated over their estimated useful lives as depreciation.	
	Cost of capital outlay 15,686
	Depreciation expense (2,379)
	Loss on disposal of capital assets (1,785)
Change in Net Assets of Governmental Activities	\$ 14,559

See accompanying notes to financial statements

LOCKPORT TOWNSHIP, ST. JOSEPH COUNTY, MICHIGAN

STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 JUNE 30, 2005

Business - Type Activities

Water
 Fund

ASSETS

Current assets

Cash and cash equivalents (Note 3)	\$ 115,723
Investments (Note 3)	35,521
Receivables, net	21,704
Due from other governments (Note 4)	27,269
Inventories	827
Prepaid expenses	4,863

Total current assets 205,907

Noncurrent assets

Capital assets, net (Note 4)	1,989,600
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Total noncurrent assets 1,989,600

Total Assets \$ 2,195,507

LIABILITIES

Current liabilities

Accounts payable	\$ 6,341
Accrued interest payable	3,401
Due to other funds (Note 4)	3,945

Total current liabilities 13,687

Noncurrent liabilities

Bonds payable, net of discount (Note 7)	331,784
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Total Liabilities \$ 345,471

NET ASSETS

Invested in capital assets -

Net of related debt	1,654,600
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Unrestricted 195,436

Total Net Assets \$ 1,850,036

See accompanying notes to financial statements

LOCKPORT TOWNSHIP, ST. JOSEPH COUNTY, MICHIGAN

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUND
 FOR THE YEAR ENDED JUNE 30, 2005

Business - Type Activities

Water
Fund

Operating revenues	
Metered sales	\$ 86,430
Sewage disposal services	2,569
Penalties and interest charges	595
Installation and other charges	-
Total operating revenues	89,594
Operating expenses	
Personnel services	2,131
Contractual services	26,021
Utilities	4,656
Repairs and maintenance	2,603
Other supplies and expenses	5,471
Depreciation	15,633
Total operating expenses	56,515
Operating income (loss)	33,079
Nonoperating revenues (expenses)	
Interest and investment income	2,559
Interest expense	(13,381)
Bond administration fee	(225)
Bond discount amortization	(134)
Total nonoperating revenues (expenses)	(11,181)
Income (loss) before contributions	21,898
Capital contributions	597,126
Change in net assets	619,024
Total net assets - beginning of year	1,231,012
Total net assets - end of year	\$ 1,850,036

See accompanying notes to financial statements

LOCKPORT TOWNSHIP, ST. JOSEPH COUNTY, MICHIGAN

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2005

Business - Type Activities

	<u>Water Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 81,111
Payments to suppliers	(39,692)
Payments to employees	<u>(2,086)</u>
Net cash provided (used) by operating activities	39,333
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from capital debt	234,680
Principal and interest payments on capital debt	(12,693)
Capital contributions	645,518
Purchases of capital assets	<u>(896,941)</u>
Net cash provided (used) by capital and related financing activities	<u>(29,436)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	<u>514</u>
Net cash provided by investing activities	<u>514</u>
Net increase (decrease) in cash and cash equivalents	10,411
Balances - beginning of year	<u>105,312</u>
Balances - end of year	<u><u>\$ 115,723</u></u>

See accompanying notes to financial statements

LOCKPORT TOWNSHIP, ST. JOSEPH COUNTY, MICHIGAN

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2005

Business - Type Activities

Water
Fund

Reconciliation of Operating Income
(Loss) to Net Cash Provided (Used)
by Operating Activities

Operating income (loss)	33,079
Adjustments to reconcile operating income to net cash provided (used) by operating activities	
Depreciation expense	15,633
Custodial fees - mutual fees	226
(Increase) decrease in assets	
Receivables	(8,484)
Inventories	843
Prepaid expenses	(1,407)
Increase (decrease) in liabilities	
Accounts payables	7
Due to other funds	(1,477)
Accrued interest	913
Net cash provided by operating activities	<u>\$ 39,333</u>

See accompanying notes to financial statements

LOCKPORT TOWNSHIP, ST. JOSEPH COUNTY, MICHIGAN

STATEMENT OF FIDUCIARY NET ASSETS
TAX COLLECTION AGENCY FUND
JUNE 30, 2005

	Agency Funds - Current Tax Fund
ASSETS	
Cash and cash equivalents	\$ 2,993
Total Assets	<u>\$ 2,993</u>
LIABILITIES	
Due to other funds (Note 4)	\$ 2,111
Due to other governments (Note 4)	<u>882</u>
Total Liabilities	<u>\$ 2,993</u>

See accompanying notes to financial statements

LOCKPORT TOWNSHIP, ST. JOSEPH COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Lockport Township conform to the accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies used by Lockport Township:

A. Reporting Entity

The Township of Lockport became a general law township in the year 1840, and operates under an elected eight-member council (Board). The Township provides the following services: public safety, highways and streets, planning and zoning, water supply services, and general administrative services. A separate board of six members, one of which is on the general board, has responsibility for the water supply services.

The criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financial relationships. Accordingly, the financial statements of certain other governmental organizations are not included in the financial statements of the Township. Educational services are provided through the local school district. Fire services are provided by contract through the Lockport, Fabius and Park Fire Department, which is a separate governmental unit.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities that rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported in separate columns in the fund financial statements. There are no non-major governmental funds to report on.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

LOCKPORT TOWNSHIP, ST. JOSEPH COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both 'measurable and available'. Revenue is considered to be 'available' if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be 'available' if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The governmental fund balance sheet reflects property taxes receivable. Property tax is levied on each December 1st on the taxable valuation of property located in Lockport Township as of the preceding December 31st.

Although Lockport Township's 2004 ad valorem tax is levied and collectible on December 1, 2004, it is Lockport Township's policy to recognize revenue when collected, and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days). The 2004 taxable valuation of Lockport Township totaled \$81,714,008, on which ad valorem taxes levied consisted of one mill for Lockport Township's operating purposes, raising \$81,714 for operations. These amounts are recognized in the General Fund financial statements as taxes receivable – current or as property tax revenue.

Governmental Funds are those through which most of the governmental functions typically are financed.

- a) **General Fund** - The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- b) **Special Revenue Fund** – The Special Revenue Fund accounts for revenue derived from specific sources that are restricted by legal and regulatory provisions to finance specific activities. There are no special revenue funds to report on.

The Township has only the General Fund to report on. There are no other major or nonmajor funds to report on.

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and payments relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of operating income, financial position, change in net assets and cash flows. Operating revenues include charges for services. Operating expenses include costs of services as well as materials, contracts, personnel, and depreciation. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Water Fund - The Water Fund accounts for revenues generated from charges for distribution of water to the residential and commercial users of the Township. The water fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fiduciary funds are used to account for assets held by the Township in a trustee capacity or as an agent. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. These funds are not included in the government-wide financial statements.

Tax Collection Fund – The Tax Collection Fund accounts for the levy, collection and payment of taxes levied on personal and real estate properties held within the Township.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Assets, Liabilities, and Net Assets or Equity

Bank deposits and investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value and consist of certificates of deposit with initial maturity dates of less than one year.

Receivables and payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statement as "internal balances."

No allowance for uncollectible accounts has been provided. Management has evaluated the accounts and believes they are all collectible.

Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories – Inventories of the Water Fund consists of meters and other parts recorded at cost.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include property, plant, and equipment are reported in the applicable governmental or business-type activities column in the government-wide financial statements. The government defines capital assets as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of 3 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

LOCKPORT TOWNSHIP, ST. JOSEPH COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	25 - 39 years
Water mains & piping	40 - 50 years
Wells and meters	15 - 25 years
Water equipment	5 - 7 years
Software	3 years
Computer equipment	5 years
Office equipment	10 years

GASB 34 requires infrastructure acquired, donated, constructed or substantially rehabilitated since fiscal years ending after June 30, 1980, be inventoried and capitalized. The township has no infrastructure to report at June 30, 2004.

Compensated Absences (Vacation and Sick Leave) - It is Lockport Township's policy to not permit employees to accumulate unused vacation or sick days from year to year.

Long-Term Obligations - In the government-wide financial statements and in the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Net Assets - In the government-wide financial statements net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information-Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. At the annual meeting held in May the budget for the fiscal year commencing July 1 is presented to assembled electors for their comment before it is given final approval. The Council must approve any revisions of the budgets.

The budget documents present information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the fund. The Township supervisor is empowered to transfer line-item budget amounts within appropriation centers. Budgets as presented for the governmental funds are prepared on the modified accrual basis consistent with generally accepted accounting principles.

LOCKPORT TOWNSHIP, ST. JOSEPH COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

In the Required Supplemental Information section of the financial statements, the Township's actual expenditures and budgeted expenditures is shown for the governmental funds. The Township incurred fewer expenditures for all governmental funds than budgeted.

NOTE 3 DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes local government units to make deposits and invest in the following:

- In certificates of deposit, savings accounts, deposit accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan.
- In bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States.
- In United States government or federal agency obligation repurchase agreements.
- In banker's acceptance of United States banks.
- In commercial paper rated within the two highest classifications that mature not more than 270 days after the date of purchase.
- In obligations of the State of Michigan or its political subdivisions that are rated as investment grade.
- In mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Lockport Township Board has designated three banks for the deposit of the Township's funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bank depository accounts, certificates of deposit, and in mutual funds, but not the remainder of State statutory authority as listed above.

Lockport Township's deposits and investment policy are in accordance with statutory authority.

At fiscal year end, the Township's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business Type Activities	Fiduciary Funds	Total Primary Government
Demand deposits	\$ 200	\$200	\$ 384	\$784
Savings and Certificates of deposit	436,390	115,523	2,609	554,522
Money market trust	-	35,521	-	35,521
Total	<u>\$436,590</u>	<u>\$151,244</u>	<u>\$2,993</u>	<u>\$590,827</u>

The bank balance of the primary government's demand deposits is \$784 of which \$784 is covered by federal depository insurance. Savings and time deposits total \$590,043 of which \$283,547 is covered by federal depository insurance. The remaining assets with a fair market value of \$306,496 are uninsured and uncollateralized and held in two local banks. The Township is subject to custodial credit risk for these remaining monies. Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Township will not be able to recover its deposits. The Township has concluded it is impractical due to the dollar amounts of cash deposits and the limits of FDIC insurance to insure all bank deposits. The Township's investment policy requires evaluating each financial institution with which it deposits Township funds and assessing the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories. All of the Township's demand deposits and certificates of deposit have a fair market value that is equal to their carrying value.

LOCKPORT TOWNSHIP, ST. JOSEPH COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 4 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of **interfund balances** is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due From	Due to	
Water Fund	General Fund	\$ 3,945
Tax Collection Agency Fund	General Fund	2,111

The composition of balances **due to other governments** is as follows:

Due From	Due to	
Tax Collection Agency Fund	St. Joseph County Treasurer	882

The composition of balances **due from other governments** is as follows:

Due to	Due From	
General Fund	State revenue sharing	37,721
Water Fund	St. Joseph County	2,145
Water Fund	State of Michigan Department of Environmental Quality	25,124

LOCKPORT TOWNSHIP, ST. JOSEPH COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 5 CAPITAL ASSETS

The following summarizes the changes in capital assets for the fiscal year ended June 30, 2005:

Governmental Activities

	Balance July 1, <u>2004</u>	<u>Increases</u>	<u>Decreases</u>	Balance June 30, <u>2005</u>
Capital assets not being depreciated:				
Under construction	\$ <u>-</u>	\$ <u>15,686</u>	\$ <u>-</u>	\$ <u>15,686</u>
Capital assets being depreciated:				
Office equipment	37,795	-	8,189	29,606
Less Accumulated depreciation for:				
Office equipment	<u>29,441</u>	<u>2,379</u>	<u>6,404</u>	<u>25,416</u>
Net Capital Assets being depreciated	<u>8,354</u>	<u>2,379</u>	<u>1,785</u>	<u>4,190</u>
Total Governmental Activities -net of depreciation	<u><u>8,354</u></u>	<u><u>13,307</u></u>	<u><u>1,785</u></u>	<u><u>19,876</u></u>

Business-type Activities

Capital assets not being depreciated:				
Land and easements	82,916	17,349	-	100,265
Water mains, wells not in use	174,714	-	75,302	99,412
Water system Improvements	<u>617,107</u>	<u>876,015</u>	<u>-</u>	<u>1,493,122</u>
	<u>874,737</u>	<u>893,364</u>	<u>75,302</u>	<u>1,692,799</u>
Capital assets being depreciated:				
Buildings	50,619	2,460	-	53,079
Water mains	475,492	-	-	475,492
Wells, pumps	64,672	1,094	-	65,766
Meters	26,720	131	-	26,851
Software	<u>307</u>	<u>-</u>	<u>-</u>	<u>307</u>
Subtotal	<u>617,810</u>	<u>3,685</u>	<u>-</u>	<u>621,495</u>
Less Accumulated Depreciation for:				
Buildings	30,683	1,285	-	31,968
Water mains	204,971	9,492	-	214,463
Wells, pumps	54,185	3,735	-	57,920
Meters	18,915	1,121	-	20,036
Software	<u>307</u>	<u>-</u>	<u>-</u>	<u>307</u>
Subtotal	<u>309,061</u>	<u>15,633</u>	<u>-</u>	<u>324,694</u>
Net Capital Assets being depreciated	<u>308,749</u>	<u>(11,948)</u>	<u>-</u>	<u>296,801</u>
Total Business-Type Capital Assets – Net of Depreciation	<u><u>\$1,183,486</u></u>	<u><u>\$881,416</u></u>	<u><u>\$75,302</u></u>	<u><u>\$1,989,600</u></u>

LOCKPORT TOWNSHIP, ST. JOSEPH COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 5 CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities	
Unallocated	\$ 2,349
Business-Type Activities	
Water	\$15,633

Construction Commitments-The Township is constructing an alternate water supply system. Total to date expenditures of \$1,493,122 have been capitalized. The Township has begun the final phase. It is anticipated that the total project will be approximately \$7.3 million. Part of this project is being financed through a \$335,000 St. Joseph County Limited Tax General Obligation Bond. The remainder of the project will be financed through state grants.

On August 1, 2005 a water main not in service was sold to Armstrong International, Inc. for \$75,000. The main, built in prior years with a cost basis of \$150,302, was written down to its net realizable value at June 30, 2005 by reducing contributed capital - Iroquois.

NOTE 6 PENSION PLAN

The Township maintains a deferred contribution plan for substantially all employees. The employer contribution is 25% of eligible compensation. Employees may not contribute. For fiscal year ended June 30, 2005, the employer contribution was \$24,267.

NOTE 7 LONG-TERM DEBT

Bond and contractual obligation activity can be summarized as follows:

	Beginning <u>Balance</u>	Additions (Reductions)	Ending Balance	Due Within One Year
Business-Type Activities				
Limited Tax General Obligation Water Supply System Bonds; issued by St. Joseph County in April 2004, \$335,000 bond, 3.5 - 4.55% interest, maturing October 2019.	<u>\$335,000</u>	<u>\$ -</u>	\$335,000	<u>\$ -</u>
Total Business-Type Activities	<u>\$335,000</u>	<u>\$ -</u>	<u>\$335,000</u>	<u>\$ -</u>

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year End June 30</u>	<u>I</u>	<u>Business - Type</u>		<u>Total</u>
		<u>Principal</u>	<u>Interest</u>	
2006		\$ -	\$ 13,603	\$ 13,613
2007		15,000	13,340	28,340
2008		20,000	12,728	32,728
2009		20,000	12,017	32,017
2010		20,000	11,298	31,298
2011-2015		120,000	43,777	163,777
2016-2020		140,000	16,586	156,586
Totals		<u>\$335,000</u>	<u>\$123,349</u>	<u>\$458,349</u>

LOCKPORT TOWNSHIP, ST. JOSEPH COUNTY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 8 RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for workers' compensation and liability claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. At fiscal year end there are no outstanding claims.

REQUIRED SUPPLEMENTARY INFORMATION

LOCKPORT TOWNSHIP, ST. JOSEPH COUNTY, MICHIGAN

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended budget
Resources (inflows)				
Real and personal property taxes	\$ 78,900	\$ 78,900	\$ 106,044	\$ 27,144
State revenue sharing	200,000	200,000	248,479	48,479
Licenses and permits	32,500	32,500	8,073	(24,427)
Charges for services	18,600	18,600	16,985	(1,615)
Interest	8,000	8,000	13,821	5,821
Miscellaneous revenues	800	800	1,373	573
Amounts available for appropriations	<u>338,800</u>	<u>338,800</u>	<u>394,775</u>	<u>55,975</u>
Charges to appropriations (outflows)				
General government	325,593	326,201	251,102	75,099
Planning and zoning	59,800	59,800	32,797	27,003
Public safety	81,960	81,960	66,361	15,599
Public works	10,600	10,600	3,514	7,086
Health & welfare	14,000	14,000	13,527	473
Library	24,458	24,458	24,437	21
Transfers to other governments	450	450	-	450
Total charges to appropriations	<u>516,861</u>	<u>517,469</u>	<u>391,738</u>	<u>125,731</u>
Excess (deficiency) of resources over charges to appropriations	(178,061)	(178,669)	3,037	181,706
Beginning of Year Fund Balance	<u>443,415</u>	<u>443,415</u>	<u>443,415</u>	<u>-</u>
End of Year Fund Balance	<u>\$ 265,354</u>	<u>\$ 264,746</u>	<u>\$ 446,452</u>	<u>\$ 181,706</u>